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PASS TREASURY, FEDERAL RESERVE, COMMERCE

E.O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 36375, DECEMBER 8, 1976

1. SUMMARY--

THERE ARE NO CHRISTMAS PRESENTS IN THE YEAR-END
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ECONOMIC NEWS IN FRANCE. NONE WERE EXPECTED.
THE PRESIDENT HAS OBSERVED THAT 1977 WILL NOT BE
AN EASY YEAR FOR THE FRENCH ECONOMY, AND THE
PRIME MINISTER REPEATEDLY CALLS FOR A NATIONAL
EFFORT. THE BASIC TRENDS REMAIN THE SAME AS REPORTED
IN EARLIER BIWEEKLIES AND NOW ARE WIDELY EXPECTED TO

CONTINUE AT LEAST THROUGH THE FIRST QUARTER OF NEXT
YEAR, IF NOT LONGER.
END SUMMARY

2. PRESIDENT AND PRIME MINISTER STRONGLY
REAFFIRM INTENTION TO STICK TO BARRE PLAN

IN SEPARATE MAJOR ADDRESSES ON DECEMBER 21, PRESIDENT
GISCARD AND PRIME MINISTER BARRE MARKED THE THIRD
MONTH ANNIVERSARY OF THE BARRE PLAN BY REAFFIRMING
THEIR INTENTIONS OF STRICT ADHERENCE TO THE BARRE
PLAN. THE PRESIDENT STATED THAT THE BARRE PLAN
WILL NOT BE MODIFIED AND WILL BE APPLIED SUCH AS
IT IS. PRIME MINISTER BARRE FORCIBLY REAFFIRMED
THIS, WHILE EMPHASIZING THE NEED TO DEFEND THE
FRANC. HE STATED THAT THE GOF IS DETERMINED TO
GIVE ABSOLUTE PRIORITY TO THE DEFENSE OF THE
FRANC AND WILL UTILIZE ALL AVAILABLE MEANS,
ESPECIALLY THE RATE OF INTEREST, TO THIS END.

3. SEASONALLY ADJUSTED MONEY SUPPLY REGISTERS
VERY SMALL INCREASE IN SEPTEMBER

THE SEASONALLY ADJUSTED MONEY SUPPLY (M2) INCREASED
BY ONLY 0.3 PERCENT IN SEPTEMBER FROM FF 825.7
BILLION IN AUGUST TO FF 828.5 BILLION. M1
DECREASED BY 0.3 PERCENT FROM FF 436.0 BILLION
TO FF 434.8 BILLION. THE 1.2 PERCENT INCREASE
IN QUASI-MONIES FROM FF 389.3 TO FF 393.9 WAS
SOMEWHAT HIGHER THAN THE RATES OF INCREASE
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OBSERVED IN JULY AND AUGUST WHICH HAD MARKED A
SUBSTANTIAL DECREASE FROM THE EARLIER PART
OF THE YEAR.

ON AN UNADJUSTED BASIS M2 STOOD AT FF 827.5 BILLION,
0.6 PERCENT HIGHER THAN IN AUGUST. M1 AND QUASI-
MONIES WERE FF 435.7 BILLION AND FF 391.8 BILLION
RESPECTIVELY, M1 INCREASING BY 1.4 PERCENT AND
QUAI-MONIES FALLING BY 0.3 PERCENT WITH RESPECT TO
THE AUGUST LEVELS.

NET FOREIGN EXCHANGE RESERVES STOOD AT FF 41.39
BILLION (0.7 PERCENT INCREASE OVER AUGUST),
CLAIMS ON THE PUBLIC SECTOR AT
FF 122.0 BILLION (0.7 PERCENT INCREASE) AND
CLAIMS ON THE PRIVATE SECTOR AT FF 707.06 BILLION
(0.7 PERCENT INCREASE).

4. LARGE DETERIORATION IN CURRENT ACCOUNT
DURING THIRD QUARTER

PROVISIONAL BALANCE OF PAYMENTS DATA FOR THE
THIRD QUARTER OF 1976 SHOWS A LARGE DETERIORATION
IN THE BALANCE ON CURRENT ACCOUNT FROM FF 1.9 BILLION

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IN THE SECOND QUARTER TO FF 11.6 BILLION IN THE
THIRD QUARTER, DUE PRIMARILY TO THE LARGE TRADE
DEFICIT WHICH INCREASED FROM FF 1.3 BILLION TO
FF 8.2 BILLION. ANOTHER IMPORTANT FACTOR WAS
THE SHIFT FROM A SURPLUS OF FF 1.1 BILLION
FOR TOURISM TO A DEFICIT OF FF 0.5 BILLION.

THIS WAS DUE TO SEASONAL FACTORS SINCE THE FRENCH
TRADITIONALLY TAKE THEIR VACATIONS DURING THIS
PERIOD.

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FRENCH BALANCE OF PAYMENTS

(IN BILLIONS OF FRANCS; DATA FOR THIRD QUARTER
PRELIMINARY; DATA FOR FIRST AND SECOND QUARTERS
1976 REVISED)

75 IV 76 I 76 II 76 III

TRADE BALANCE	-1.6	-3.5	-1.3	-8.2
NET SERVICES	2.1	0.0	1.7	-0.3
BALANCE ON GOODS	0.5	-3.5	0.4	-8.5
AND SERVICES				
NET TRANSFERS	-2.5	-2.5	-2.4	-3.2
BALANCE ON CURRENT	-2.0	-6.0	-2.0	-11.7
ACCOUNT				
LONG TERM CAPITAL,	-0.1	-3.2	-2.8	-3.0
NET				
BASIC BALANCE	-2.1	-9.2	-4.8	-14.7
SHORT TERM CAPITAL,	3.0	0.2	2.9	8.1
MONETARY TRANSACTIONS				
PLUS ERRORS & OMISSIONS				
BALANCE	-0.9	-8.9	-1.8	-6.5

THE CAPITAL ACCOUNT, IN CONTRAST, SHOWED A
SUBSTANTIAL IMPROVEMENT DURING THE THIRD
QUARTER, WITH A SURPLUS OF FF 5.1 BILLION AS COMPARED
TO A SURPLUS OF ONLY FF 0.1 BILLION FOR THE SECOND
QUARTER. THE NET OUTFLOW OF LONG-TERM CAPITAL
REMAINED AT ABOUT THE SAME LEVEL AS FOR THE PREVIOUS
QUARTER, BUT SHORT-TERM CAPITAL SHOWED A SUBSTANTIAL
INCREASED INFLOW FROM FF 2.9 BILLION TO FF 8.1. THE
INCREASE IN MEDIUM- AND LONG-TERM COMMERCIAL CREDITS
ABROAD FROM FF 3.3 BILLION IN THE SECOND QUARTER TO
FF 4.3 BILLION IN THE THIRD QUARTER WAS COUNTER-
BALANCED BY AN INCREASE IN EXTERNAL BORROWINGS

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FROM FF 3.7 BILLION TO FF 4.6 BILLION.

5. OCTOBER INDEX SHOWS SHARP DECREASE IN

INDUSTRIAL PRODUCTION

THE INSEE SEASONALLY ADJUSTED INDEX OF INDUSTRIAL PRODUCTION VERIFIES THE FINDING OF RECENT SURVEYS THAT THERE WAS A SHARP DECLINE IN INDUSTRIAL PRODUCTION COMMENCING IN OCTOBER. THE SEASONALLY ADJUSTED INDEX, EXCLUDING BUILDING AND PUBLIC WORKS, FELL FROM 129 IN SEPTEMBER TO 123 IN OCTOBER, A 4.7 PERCENT DECREASE. THE SEPTEMBER INDEX WAS PROBABLY OVERESTIMATED DUE TO THE INCLUSION BY SOME INDUSTRIES OF THEIR PRODUCTION FOR THE LAST TWO DAYS AFTER THE VACATION PERIOD IN AUGUST IN THEIR SEPTEMBER TOTALS. PRODUCTION IN ALL SECTORS FELL, WITH THE EXCEPTION OF CONSUMER GOODS WHICH REMAINED CONSTANT. PRODUCTION IN THE ENERGY SECTOR FELL BY 120 PERCENT, IN THE INTERMEDIATE GOODS SECTOR BY 4.3 PERCENT, AND IN THE CAPITAL GOODS SECTOR BY 9.5 PERCENT. INDUSTRIES SHOWING THE LARGEST DECLINES IN PRODUCTION WERE NATURAL GAS AND PETROLEUM PRODUCTS, WITH A 19.5 PERCENT DECREASE FROM SEPTEMBER, AND THE PAPER INDUSTRY, WITH A 11.7 PERCENT DECREASE DUE PRIMARILY TO A STRIKE.

IT SHOULD BE NOTED THAT THE MONTHLY INDEX OF INDUSTRIAL PRODUCTION COVERS ONLY 41 PERCENT OF INDUSTRY (54 PERCENT EXCLUDING BUILDING AND PUBLIC WORKS). THE AGRICULTURE AND FOOD PROCESSING INDUSTRIES, METAL WORKS AND A LARGE PORTION OF MACHINERY ARE FOLLOWED ONLY ON A QUARTERLY BASIS. OF THE INDUSTRIES WHICH ARE COVERED ON A MONTHLY BASIS, 84 PERCENT (EXCLUDING BUILDING AND PUBLIC WORKS) HAVE TO DATE BEEN COVERED IN THE OCTOBER INDEX.

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6. UNADJUSTED UNEMPLOYMENT REMAINS ABOVE MILLION MARK IN NOVEMBER

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FOR THE SECOND MONTH IN A ROW, REGISTERED
UNEMPLOYMENT WAS OVER THE MILLION MARK, INCREASING
FROM 1,025,300 IN OCTOBER TO 1,041,300 IN NOVEMBER.
ON A SEASONALLY ADJUSTED BASIS, UNEMPLOYMENT FELL
FROM 935,400 IN OCTOBER TO 931,400 IN NOVEMBER.
SEASONALLY ADJUSTED UNFILLED JOB OFFERS FELL FOR
THE THIRD MONTH IN A ROW FROM 116,800 IN OCTOBER
TO 108,000. WE ESTIMATE SEASONALLY ADJUSTED
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UNEMPLOYMENT TO BE 4.2 PERCENT OF THE LABOR FORCE
(SEE PARIS A-322 OF 197.5 FOR METHODOLOGY).

LABOR MARKET INDICATORS

(SEASONALLY ADJUSTED; IN THOUSANDS END OF MONTH)

	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.
REGISTERED	966.7	950.1	961.7	941.3	935.4	931.4

UNEMPLOYMENT

UNFILLED 138.7 134.0 135.5 131.2 116.8 108.2

JOB OFFERS

UNEMPLOYMENT AS 4.4 4.3 4.3 4.2 4.2 4.2

PERCENT OF LABOR

FORCE

7. ESTIMATE OF 1976 INVESTMENT BUDGETS REVISED UPWARD
BUT SIGNS POINT TO A REDUCTION IN INDUSTRIAL
INVESTMENT IN 1977

THE INSEE SURVEY OF INVESTMENT IN INDUSTRY, WHICH IS CONDUCTED THREE TIMES A YEAR AND WHICH COVERS A LITTLE MORE THAN TWO-FIFTHS OF PRODUCTIVE INVESTMENT OF NON-FINANCIAL ENTERPRISES IN THE PUBLIC AND PRIVATE SECTORS, SHOWS INDUSTRIALISTS HAVE REVISED UPWARD THEIR ESTIMATES OF THE INCREASE IN THEIR INVESTMENT BUDGET BETWEEN 1975 AND 1976. THE NOVEMBER SURVEY INDICATES THAT INVESTMENT BUDGETS SHOULD SHOW A REAL INCREASE OF 3-4 PERCENT IN 1976, AS COMPARED TO AN ESTIMATE OF 1-2 PERCENT IN JUNE.

THE INCREASE IN INVESTMENT IS HIGHER FOR SMALL AND MEDIUM SIZED ENTERPRISES THAN FOR LARGE ENTERPRISES. IT IS STRONGEST FOR THE CAPITAL EQUIPMENT SECTOR (16 PERCENT), MODERATE IN THE INTERMEDIATE GOODS SECTOR WHERE THERE IS A REDUCTION OF INVESTMENT IN UNCLASSIFIED

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THE METAL INDUSTRY AND WEAK (9 PERCENT) IN THE CONSUMER GOODS SECTOR.

WITH REGARD TO 1977, THE SURVEY INDICATES THAT INVESTMENT BUDGETS SHOULD INCREASE BY 6 PERCENT IN NOMINAL TERMS, WHICH CORRESPONDS TO A REAL DECLINE OF AROUND 2 PERCENT. ACCORDING TO THESE RESULTS, THERE SHOULD BE A STRONG FALL IN INVESTMENT IN THE METAL INDUSTRY, A REVIVAL OF INVESTMENT IN THE AUTOMOBILE AND GLASS INDUSTRIES, AND A CONTINUATION OF INVESTMENT IN PETROLEUM ENTERPRISES.

A SECOND PART OF THE SURVEY ATTEMPTS TO ESTIMATE INVESTMENT BASED ON ACTUAL OR EXPECTED ORDERS FOR CAPITAL GOODS. IN RESPONSE TO THIS QUESTION, INDUSTRIALISTS INDICATE A STABILIZATION OF ORDERS FOR THE SECOND HALF OF 1976 AT THE SAME LEVEL AS IN THE FIRST HALF, WHICH IS LESS THAN ONE PERCENT ABOVE THE LEVEL FOR THE FIRST OF 1975. FURTHERMORE, FOR THE FIRST HALF OF 1977 THEY ENVISION ONLY A 0.65 PERCENT INCREASE IN THE VALUE OF THEIR CAPITAL GOODS

ORDERS, WHICH IN REAL TERMS WOULD BE A DECLINE IN THE ORDER OF 3.4 PERCENT. THUS, THE ESTIMATE OF INVESTMENT IN 1977 BASED ON EXPECTED ORDERS FOR CAPITAL EQUIPMENT IS LOWER THAN THE ESTIMATE BASED ON INVESTMENT BUDGETS. INSEE PLACES NO BETS ON WHICH OF THE TWO FORECASTS WILL PROVE TO BE CORRECT.

8. BUSINESS ECONOMISTS EXPECT GOF TO STIMULATE THE ECONOMY IN SECOND HALF OF 1977

THE SEMI-ANNUAL REPORT OF THE FRENCH ASSOCIATION OF BUSINESS ECONOMISTS FORESEES A CONTINUATION OF ECONOMIC GROWTH IN 1977 IN THE PRINCIPAL WESTERN COUNTRIES BUT AT A RATE LOWER TO THAT OF 1976. IN FRANCE INDUSTRIAL PRODUCTION OUGHT TO

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STAGNATE DURING THE FIRST HALF OF 1977, THEN GROW DURING THE SECOND SEMEESTER AT AN ANNUAL RATE OF 5

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PERCENT. THIS VIEW IS BASED ON THE BELIEF OF 93 PERCENT OF THE BUSINESS ECONOMISTS THAT THE GOVERNMENT WILL ADOPT A MORE STIMULATORY POLICY DURING THE COURSE OF THE YEAR. IN THEIR OPINION, UNEMPLOYMENT SHOULD REMAIN AROUND THE MILLION MARK FOR THE ENTIRE YEAR. NINETY PERCENT OF THE ECONOMISTS EXPECT THE BARRE PLAN TO PUT A BRAKE ON INCREASES IN WAGES AND PRICES. HOWEVER, THE INCREASE IN RETAIL PRICES MAY AVERAGE ABOUT 0.6 PERCENT PER MONTH
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FOR THE ENTIRE YEAR. THEY ESTIMATE THAT THE RATE OF GROWTH OF THE GROSS INTERNAL PRODUCT WILL FALL BETWEEN 3--4.5 PERCENT IN 1977.

9. BUSINESS CONFIDENCE REPORTED TO BE SLIGHTLY IMPROVED

THE BOF REPORT ON THE ECONOMIC SITUATION IN NOVEMBER STRIKES A SLIGHTLY MORE OPTIMISTIC NOTE THAN ITS PREVIOUS REPORT WHICH DWELT ON THE STEEP DECLINE IN CONFIDENCE AMONG BUSINESSMEN. ACCORDING TO THE MOST RECENT REPORT, THE PERSONAL ATTITUDE OF HEADS OF ENTERPRISES APPEARS IN REALITY TO BE ONE MORE OF RESERVE THAN OF REAL DISQUIETUDE. WHILE STILL VERY CONCERNED ABOUT THE GENERAL SITUATION, THEY APPEAR TO BE LESS CONCERNED THAN IN OCTOBER WITH REGARD TO THEIR OWN BUSINESSES; THEY SEEM DISPOSED TO DEFER CERTAIN DECISIONS REGARDING LAYOFFS WHICH THEY HAD FORESEEN THE PREVIOUS MONTH. THOSE SURVEYED BELIEVE THAT ACTIVITY OUGHT TO REMAIN NEAR ITS PRESENT LEVEL DURING THE FIRST FEW MONTHS OF 1977. THEY ARE PRIMARILY CONCERNED ABOUT THEIR FINANCIAL SITUATIONS. IN ORDER TO PROTECT THEMSELVES THEY ARE ATTEMPTING TO KEEP THEIR PRODUCTION IN EXACT ALIGNMENT WITH THEIR ORDERS.

THE BOF REPORTS THAT PRODUCTION WAS GENERALLY MAINTAINED IN NOVEMBER AT THE OCTOBER LEVEL.

PRODUCTION CAPACITY CONTINUED TO BE WELL-UTILIZED IN THE CONSUMER GOODS SECTOR WHILE THERE REMAINED MARGINS, SOMETIMES RATHER SIZABLE, IN THEIR INTER-MEDIATE GOODS SECTOR --NOTABLY IN METAL INDUSTRIES-- AND IN CERTAIN CAPITAL GOODS INDUSTRIES. DELIVERIES WERE VERY ACTIVE, OFTEN HIGHER IN VOLUME THAN MANUFACTURES. THE LEVEL OF STOCKS OF PRODUCTS FOR DELIVERY WEAKENED, ONLY RARELY SURPASSING WHAT

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IS CONSIDERED AS NORMAL. ORDERS MAY HAVE TO SOME EXTENT BEEN AFFECTED BY EXPECTATIONS THAT THE DECREASE OF THE RATE OF THE VALUE ADDED TAX IN JANUARY MAY HAVE A FAVORABLE EFFECT ON PRICE.

10. HOUSEHOLDS PESSIMISTIC REGARDING ECONOMIC SITUATION

A SURVEY CONDUCTED BY INSEE BETWEEN OCTOBER 15--NOVEMBER 5 CONCERNING THE ATTITUDES AND PURCHASING INTENTIONS OF HOUSEHOLDS CONCLUDED THAT THE FRENCH WERE PESSIMISTIC WITH REGARD TO THE EVOLUTION OF THE ECONOMIC SITUATION. OF THOSE INTERVIEWED, 37 PERCENT RESPONDED THAT IN THE COMING MONTHS THE STANDARD OF LIVING WAS GOING TO DECLINE (AS COMPARED TO 29.5 PERCENT IN MAY AND 31.5 PERCENT LAST JANUARY). FORTY-THREE PERCENT BELIEVED THAT THE NUMBER OF UNEMPLOYED WAS GOING TO INCREASE (27.5 PERCENT IN MAY). ON THE OTHER HAND, 40 PERCENT FORESAW A DECLINE IN THE RATE OF INFLATION (23.5 PERCENT IN MAY).

IT IS INTERESTING TO NOTE THAT THE OPINION OF HOUSEHOLDS IN THIS SURVEY WAS MORE PESSIMISTIC CONCERNING THE ECONOMY IN GENERAL THAN WITH REGARD TO THEIR OWN SITUATION. INSEE INTERPRETED THIS AS PERHAPS BEING DUE TO AN EXAGGERATED PERCEPTION OF THE REAL SITUATION, RESULTING, IN PART, FROM SOME PSYCHOLOGICAL FACTORS. IT SHOULD ALSO BE NOTED THAT THIS SURVEY WAS CONDUCTED DURING THE PERIOD WHEN THE BOF REPORTED A SHARP DECLINE IN BUSINESS CONFIDENCE.

11. EFFECTS OF OIL PRICE INCREASE ON FRENCH ECONOMY

ACCORDING TO PRESS REPORTS, THE INCREASE IN THE PRICE OF PETROLEUM WILL AFFECT FRANCE AS FOLLOWS: AT THE CURRENT

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EXCHANGE RATE AND LEVEL OF CONSUMPTION, THE ADDITIONAL
EXPENDITURE IN FOREIGN EXCHANGE SHOULD BE FF 4.6--4.7
BILLION. THE PRICE INCREASE SHOULD HAVE A 0.5--0.6

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DEFLATIONARY EFFECT ON GROWTH. PRICES SHOULD INCREASE
BY 0.3--0.4 PERCENT IF THE GOVERNMENT IS SUCCESSFUL IN
RESTRAINING PRICE REPERCUSSIONS; 0.8--1.0 PERCENT IF
IT IS NOT SUCCESSFUL.

12. LAYOFFS EXPECTED IN THE STEEL INDUSTRY

FOR THE FIRST TIME SINCE WORLD WAR II, THE STEEL
INDUSTRY IS EXPECTED TO DISMISS THOUSANDS OF WORKERS.
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SACILOR-SOLLAR CONFIRMED ON DECEMBER 21 THAT IT WOULD
ELIMINATE 9,000 JOBS IN THE NEXT 2-3 YEARS.

13. COMPANY FAILURES REGISTER INCREASE IN NOVEMBER

INSEE REPORTS THAT THE NUMBER OF COMPANY FAILURES
SHOWED A STRONG INCREASE IN NOVEMBER. AFTER CORRECTION
OF SEASONAL VARIATION, THE TOTAL FOR FRANCE WAS 1,331
AS COMPARED TO 1,003 IN OCTOBER AND 1,045 IN NOVEMBER
1975. ALTHOUGH VIRTUALLY ALL SUCH FAILURES ARE IN
SMALL AND MEDIUM-SIZED FIRMS, THEY REFLECT THE GENERALLY
WEAK FINANCIAL POSITION OF THE CORPORATE SECTOR.

14. PATRONAT REPORTS WEAKENING OF ORDERS FOR INDUSTRY

THE PATRONAT IN ITS MOST RECENT MONTHLY REPORT ON
THE ECONOMIC SITUATION STATES THAT THE INTERRUPTION
OF THE GROWTH OF ORDERS IN A LARGE NUMBER OF SECTORS
AND, INDEED, THE EXHAUSTION OF BACK ORDERS IN CERTAIN
CASES DOES NOT PERMIT ANY HOPE OF ANY VERY PERCEPTIBLE
IMPROVEMENT IN THE ECONOMIC SITUATION IN THE NEAR
FUTURE. SOME HITHERTO RELATIVELY PROSPEROUS
INDUSTRIES, SUCH AS RADIO-TELEVISION, HOUSEHOLD
EQUIPMENT AND TEXTILES, HAVE EXPERIENCED IN RECENT
WEEKS A WEAKENING IN DEMAND.

15. GOF FORMALLY DENIES PREPARATION OF SPECIFIC
MEASURES TO RESTRICT IMPORTS

THE GOF HAS DENIED THAT IT IS PREPARING ANY STATUTORY
MEASURES TO LIMIT IMPORTS IN ORDER TO PROTECT FRENCH
INDUSTRY. RECENT RUMORS ON THIS SUBJECT HAVE CONCERNED
MAINLY THE TEXTILE INDUSTRY. FOREIGN TRADE IN THIS
SECTOR IS REGULATED BY A MULTI-FIBER AGREEMENT AMONG
THE EC AND SEVERAL OTHER COUNTRIES WHICH HAS A SAFE-
GUARD CLAUSE FOR A COUNTRY IN DIFFICULTY. HOWEVER,
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THE MINISTRY OF FOREIGN TRADE STATES THAT FOR THE
MOMENT FRANCE HAS NO INTENTION OF HAVING RECOURSE TO
THIS CLAUSE. FRANCE HAS, HOWEVER, BEEN UTILIZING
OTHER MEANS TO LIMIT ITS IMPORTS SUCH AS NEGOTIATIONS

WITH SEVERAL COUNTRIES, PRIMARILY JAPAN, TO LIMIT VOLUNTARILY THEIR EXORTS PLUS THE DENIAL OF VISAS, A REQUIREMENT WHICH IS USUALLY ONLY A FORMALITY FOR CERTAIN IMPORTED PRODUCTS.

16. ECONOMIC AND SOCIAL COUNCIL CRITICAL OF BARRE PLAN

AT THE END OF ITS SEMI-ANNUAL REVIEW OF THE CURRENT ECONOMIC SITUATION, THE ECONOMIC AND SOCIAL COUNCIL PRONOUNCED ITSELF IN FAVOR OF MODIFYING THE GOVERNMENT'S CURRENT ECONOMIC POLICY. THE DECISION IT ADOPTED IS AS FOLLOWS:

- (1) IT ESTIMATES THAT THE ECONOMIC PROSPECTS ARE FAIRLY WORRYING, PARTICULARLY WITH REGARD TO EMPLOYMENT;
- (2) IT ASKS THE GOVERNMENT TO WEAKEN ITS PRESENT POLICY PARTICULARLY IN FAVOR OF SOME SELECTIVE AND LIMITED ACTIONS TO RELAUNCH THE ECONOMY.

THE REPORT ON NEAR TERM ECONOMIC PROSPECTS PRESENTED TO THE ECONOMIC AND SOCIAL COUNCIL WAS CRITICAL OF THE GLOBAL AND DEFLATIONARY NATURE OF THE BARRE PLAN. ACCORDING TO THE REPORT, INFLATION IS NOT DUE, AS IN OTHER PERIODS, TO A GENERALIZED EXCESS OF DEMAND. ON THE CONTRARY, AS A RESULT OF THE EVOLUTION OF DEMAND, A SLOWDOWN IN EXPANSION IS EXPECTED WHICH COULD REINFORCE INFLATIONARY TENSIONS BY INCREASING THE PRESSURE ON COSTS. THEREFORE, IN ORDER TO REDUCE INFLATION AND TO IMPROVE EMPLOYMENT, IT IS NECESSARY TO TAKE MEASURES WHICH WILL INCREASE CERTAIN ELEMENTS OF DEMAND. THE REPORT CALLS FOR

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AN INCREASE IN HOUSEHOLD DEMAND THROUGH AN INCREASE OF THE LOWEST INCOMES; THE DEVELOPMENT OF PUBLIC INVESTMENT; AND SELECTIVE STIMULUS OF

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ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 AID-05 CIAE-00 COME-00
EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 DODE-00
PM-04 H-02 L-03 NSC-05 PA-02 PRS-01 SS-15 STR-04
CEA-01 IGA-02 AGRE-00 INT-05 OES-06 FEAE-00 /140 W
-----231930Z 110225 /44

R 231911Z DEC 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 8239

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

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INVESTMENTS USING AS CRITERIA EMPLOYMENT AND THE
IMPROVEMENT OF FRENCH COMPETITIVENESS.

THIS DEMAND WAS PRACTICALLY REJECTED BY M. DURAFOUR,
INVESTMENTS USING AS CRITERIA EMPLOYMENT AND THE
IMPROVEMENT OF FRENCH COMPETITIVENESS.

THIS DEMAND WAS PRACTICALLY REJECTED BY M. DURAFOUR,
MINISTER DELEGATE OF ECONOMICS AND FINANCE, DURING THE
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COURSE OF THE DEBATE. HE DECLARED THAT AS LONG AS NO
IMPORTANT PROGRESS HAD BEEN OBTAINED IN CONTROLLING
INFLATION, ANY EFFORT TO RELAUNCH THE ECONOMY WOULD
BE FORBIDDEN.

17. SUMMARY OF FRENCH EXTERNAL INDEBTEDNESS

AT THE END OF SEPTEMBER FRANCE'S FOREIGN DEBT WAS
FF 43.8 BILLION, WHILE ITS FOREIGN
CREDITS WERE FF 32.7 BILLION. NEITHER FIGURE

INCLUDES COMMERCIAL BANK SHORT-TERM FOREIGN ASSETS AND LIABILITIES. ALMOST ALL OF THIS DEBT IS ON THE PART OF NATIONALIZED OR PRIVATE ENTERPRISES WITH ONLY FF 500 MILLION BEING DUE TO GOVERNMENT BORROWING. THE LARGEST BORROWER ABROAD IN 1976 WAS THE TELE-COMMUNICATIONS NETWORK WITH BORROWINGS IN FEBRUARY OF OF FF 400 MILLION (SWISS FRANCS) AND FF 500 MILLION (DOLLARS), FF 200 MILLION IN MARKS IN APRIL, FF 300 MILLION IN SWISS FRANCS IN JUNE AND FF 200 MILLION IN SWISS FRANCS IN SEPTEMBER. OTHER LARGE BORROWERS HAVE BEEN THE HIGHWAYS SYSTEM (FF 375 MILLION IN MAY, FF 250 MILLION IN SEPTEMBER, AND FF 150 MILLION IN NOVEMBER, ALL IN DOLLARS); THE RAILWAY NETWORK, AROUND ONE BILLION FRANCS IN DIVERSE CURRENCIES; AND SUCH PUBLIC OR SEMI-PUBLIC ENTERPRISES AS RENAULT. IT SHOULD BE NOTED THAT THE FRENCH EXTERNAL DEBT IS PROBABLY UNDERESTIMATED BECAUSE ALL BORROWINGS ABROAD LESS THAN FF 10 MILLION DO NOT REQUIRE PRIOR GOVERNMENT AUTHORIZATION.

18. COMMENTS ON NOVEMBER PRICE INDEX

PRIME MINISTER BARRE INDICATED THAT IF THE INCREASE IN THE PRICE OF PETROLEUM PRODUCTS IS EXCLUDED, THE RESULTS OF THE PRICE INDEX IN NOVEMBER WILL BE RELATIVELY SATISFACTORY, ESPECIALLY WITH REGARD TO UNCLASSIFIED

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SERVICES. HOWEVER, WHEN THE PRICE OF PETROLEUM IS TAKEN INTO ACCOUNT, THE INDEX WILL BE VERY CLOSE TO THAT OF OCTOBER WHICH WAS 0.9 PERCENT.

18. ESTIMATE OF 1976 BUDGET DEFICIT INCREASED TO FF 22 BILLION

THE AMENDMENT TO PUT A CEILING ON THE TAXE PROFESSIONELLE FOR THIS YEAR WILL COST THE GOF 2.2 BILLION. THIS AMOUNT WILL BE INCLUDED IN THE 1976 GOVERNMENT DEFICIT, THUS INCREASING IT TO FF 22 BILLION.

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ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 AID-05 CIAE-00 COME-00
EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
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AMCONSUL BORDEAUX
AMCONSUL LYON
AMCONSUL MARSEILLE
AMCONSUL NICE
AMCONSUL STRASBOURG

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19. OTHER REPORTS SUBMITTED DURING THE PERIOD--

TELEGRAMS

PARIS
36824 FRENCH ECONOMIC PROSPECTS: 12/13/76
LATEST INTERNAL GOF FORECAST
FOR 1977
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37159 TAUX DE BAS, COMMERCIAL BANK 12/16/76
LENDING RATE
36564 COMMENTS ON THE WALL STREET 12/10/76
JOURNAL ARTICLE ON FRANCE
OF DECEMBER 8, 1976
36484 ZAIRE DEBT 12/9/76

AIRGRAMS

PARIS

A-483 VALUE OF TRADE IN MANUFACTURES 12/10/76

A-484 FRENCH FOREIGN EXCHANGE HOLDINGS 12/10/76

A-493 FRENCH RESERVES IN NOVEMBER 12/17/76

A-495 FRENCH FOREIGN EXCHANGE HOLDINGS 12/17/76

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